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UNCLAS SECTION 01 OF 03 TAIPEI 000514

SIPDIS

STATE PLEASE PASS AIT/W AND USTR

STATE FOR EAP/RSP/TC, EAP/EP

USTR FOR WINTER AND WINELAND

USDOC FOR 4420/USFCS/OCEA/EAP/LDROKER
USDOC FOR 3132/USFCS/OIO/EAP/ADAVENPORT
TREASURY FOR OASIA/LMOGHTADER
TREASURY PLEASE PASS TO OCC/AMCMAHON
TREASURY ALSO PASS TO FEDERAL RESERVE/BOARD OF
GOVERNORS, AND SAN FRANCISCO FRB/TERESA CURRAN

E.O. 12958: N/A

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SUBJECT: Export Boom Continues in January 2006

SUMMARY

1. In January 2006, Taiwan began using new UN guidelines to compile its trade statistics and to revise its trade data for past years. Seasonally adjusted, Taiwan continued to enjoy an export boom in January 2006, particularly in its electrical and electronics industries. Greater China (mainland China and Hong Kong), Japan, the United States, and ASEAN were Taiwan's four major trading partners, taking three-quarters of the island's total exports and supplying nearly 60% of Taiwan's imports. The Lunar New Year holiday continues to distort January and February trade data, requiring adjustment. END SUMMARY.

New UN Trade Statistics

2. In January 2006, Taiwan began using the 2004 version of the "UN International Merchandise Trade Statistics Compilers Manual" for its current trade statistics and to recompile past trade data. The major change is that exports now include re-exports, and imports now include re-imports. Re-exports cover returns (to foreign suppliers), transshipments without processing, and transshipments after simple processing (defined as less than 35% value added and which account for about 80-90% of Taiwan's total re-exports). Taiwan's promotion of simple processing in recent years has contributed to a steady increase in re-exports from less than 2% of total exports prior to 2000 to about 5% in 2005. Re-imports refer to returns to local suppliers, which account for only 0.5% of total imports.

Lies, Damn Lies, and Statistics

3. The irregular timing of the weeklong Lunar New Year holiday is a seasonal factor that distorts Taiwan's trade statistics in January and February. This holiday occurred totally in February in 2005, but lasted from January 28 to February 2 in 2006. The holiday reduced by three the number of working days in January 2006, 13.6% fewer days than in January 2005. Unadjusted shipments to and from Taiwan ports in January 2006 were less than in January 2005. This distortion can be corrected through comparisons between the daily averages for January 2005 and January 2006.

Adjusted Data Shows Export Boom

5. The adjusted data show that the y-o-y export growth in January 2006 set a 12-month high of 21%. The steady rise in export growth from a single-digit rate in early 2005 to 14.2% in Q4 of 2005 and 21% in January 2006 reflects a sustained export boom. According to the adjusted data, Taiwan's imports posted a y-o-y growth of 7.7%, rather than a decline of 7% as shown by unadjusted data. Taiwan's unadjusted February 2006 trade, will likely show double-digit y-o-y growth in both exports and in imports. Due in part to the additional workdays in February 2006, unadjusted export growth may exceed 30%. Export growth, together with an import decline, contributed to a sharp increase in Taiwan's trade surplus in January 2006 to US\$2.33 billion, 4.6 times the US\$0.5 billion of a year ago.

Booming Electrical and Electronic Industries

6. The export boom was concentrated in high-tech

industries, particularly electric and electronic goods (E/E). According to unadjusted data, E/E exports in January 2006 rose 24.5% or US\$1.4 billion from a year ago to US\$7 billion. (The gaudy figures in 2006 are due, in part, to poor performance in 2005) The increase in E/E exports was nearly double the overall export increase. E/E accounted for 41.4% of Taiwan's total exports in January 2006, up from 34.8% a year earlier. E/E is mainly composed of electronic components (including semiconductors), optical products (including flat panels displays), electrical machinery, and electrical household appliances.

Higher Oil Prices -----

17. Reflecting higher international oil prices, imports of petroleum in January surged 64% from a year ago to US\$1.8 billion. Petroleum accounted for 12.3% of total imports in January 2006, up from 7% a year ago. The sharp increase in petroleum imports has contributed to growth in imports from oil producing nations, up 11% for Kuwait, up 35.5% for the United Arab Emirates, and up 92% for Saudi Arabia.

Drop in Imports of Capital Goods -----

18. However, the increase of US\$0.7 billion in petroleum imports in January 2006 was more than offset by a drop of 30% (US\$1.0 billion) in capital goods imports, due mainly to three factors: First, Japan last year finished delivery of rail cars for Taiwan's high-speed rail system. Second, Boeing's delivery of passenger aircraft to China Airlines and EVA Airways reached a peak early last year. Taiwan's imports of transport equipment in January 2006 contracted 41%. Third, machinery imports in January 2006 dropped 35% due to excess capacity built in early 2005 and Taiwan manufacturing firms relocating production overseas. These factors caused Taiwan's imports from the United States and Japan to drop 23.7% and 20.8%, respectively.

Taiwan's Major Trading Partners -----

19. Greater China, Japan, the United States, and ASEAN are Taiwan's four major trading partners. Shipments to these four markets in January 2006 rose 3.1% from a year ago to US\$12.5 billion, three-quarters of Taiwan's total exports. Exports to the United States increased from 14.4% of Taiwan's total exports in January 2005 to 15.6% in January 2006, while the export shares to Greater China and Japan declined from 39.3% to 37.7% and from 8.15% to 7.4%, respectively. The ratio for ASEAN during the one-year period remained unchanged at 13.4%.

110. Imports from major suppliers Greater China, Japan, the United States, and ASEAN dropped 13.8% to US\$8.2 billion. Imports from Greater China increased while imports from the United States and Japan shrank from 12.8% to 10.5% and from 25.4% to 21.6%, respectively.

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